



AmInvestment Bank

Company Report

Khoo Zing Sheng

khoo.zing-sheng@ambankgroup.com

+603-2036 2299

LAGENDA PROPERTIES

(LAGENDA MK EQUITY, LAGE.KL)

21 November 2023

Positive response from Mersing township

BUY

(Maintained)

Rationale for Report: Company Results

Price RM1.20
Fair Value RM1.79
52-week High/Low RM1.35/RM1.13

Key Changes

Fair value ⇄
EPS ↕

| YE to Dec | FY22 | FY23F | FY24F | FY25F |
|-------------------------------|--------|--------|---------|---------|
| Revenue (RM mil) | 868.1 | 849.7 | 1,089.7 | 1,253.2 |
| Core net profit (RM mil) | 170.7 | 151.0 | 196.8 | 232.1 |
| FD Core EPS (sen) | 20.4 | 18.0 | 23.5 | 27.7 |
| FD Core EPS growth (%) | (10.7) | (11.6) | 30.4 | 17.9 |
| Consensus Net Profit (RM mil) | - | 170.0 | 204.0 | 237.5 |
| DPS (sen) | 6.5 | 5.8 | 7.3 | 8.6 |
| PE (x) | 5.9 | 6.7 | 5.1 | 4.3 |
| EV/EBITDA (x) | 3.5 | 3.2 | 3.2 | 2.6 |
| Div yield (%) | 5.4 | 4.8 | 6.1 | 7.2 |
| ROE (%) | 18.0 | 13.4 | 14.3 | 13.7 |
| Net Gearing (%) | nm | nm | 6.2 | 3.8 |

Stock and Financial Data

| | |
|------------------------------|--|
| Shares Outstanding (million) | 837.3 |
| Market Cap (RM mil) | 1,004.8 |
| Book Value (RM/Share) | 1.21 |
| P/BV (x) | 1.0 |
| ROE (%) | 18.0 |
| Net Gearing (%) | nm |
| Major Shareholders | Lagenda Land (63.9%) Etiga Life Insurance (1.5%) Doh Properties (1.1%) |
| Free Float | 33.4 |
| Avg Daily Value (RM mil) | 0.7 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|-------|-------|
| Absolute (%) | (4.8) | (4.0) | 1.7 |
| Relative (%) | (5.5) | (5.9) | 1.2 |



Investment Highlights

- We maintain BUY on Lagenda Properties (Lagenda) with an unchanged fair value (FV) of RM1.79/share. Our FV is based on a discount rate of 30% to our RNAV (Exhibit 4), and a 3% premium to reflect its 4-star ESG rating (Exhibit 5).
- The lower FV stems from the lowering of FY23F core net profit (CNP) by 5% after accounting for slower-than-expected progress billings owing to delayed construction progress, resulting in a possible deferment of launches.
- The FV implies an FY24F PE of 8x, at parity to the current average of smaller cap property stocks.
- Lagenda's 9MFY23 CNP of RM106mil came in below expectation, making up 66% of our earlier FY23F earnings and 63% of street's.
- The variance to our forecast was mainly due to lower-than-expected revenue as a result of slower-than-expected launches in 9MFY23.
- Lagenda's 9MFY23 launches of RM600mil (-23% YoY) were only 40% of its FY23F targeted launch of RM1.5bil. Given the weaker launches, we do not discount the possibility that Lagenda will reschedule a few of its FY23F launches to FY24F.
- YoY, Lagenda's 9MFY23 revenue fell 6%, mainly due to lower revenue recognition from its newly-launched projects in Lagenda Teluk Intan (LTI) and Kedah Darulaman. These projects are still in the early stages of construction progress.
- Meanwhile, Lagenda's 9MFY23 CNP dropped 15% YoY, mainly attributable to the decline in revenue contribution from higher margin projects in Bandar Baru Setia Awan Perdana (BBSAP) and LTI. The portion of revenue recognised from these higher margin projects was down to 47% in 9MFY23 from 62% in 9MFY22.
- QoQ, Lagenda's 3QFY23 revenue grew 11% while CNP improved 17%, primarily attributed to heightened construction activities as well as higher sales conversion from booking, particularly from projects in LTI 3A & 3B and Kedah Darulaman.
- In 9MFY23, Lagenda's new sales rose 44% YoY to RM796mil, attaining 88% of its FY23F sales target of RM900mil (Exhibit 2). We gather that 43% of its 9MFY23 sales were driven by conversion of bookings in Kedah Darulaman Lagenda. The remaining sales contributors were LTI (19%), BBSAP (16%), Lagenda Tropika (14%) and others (8%).

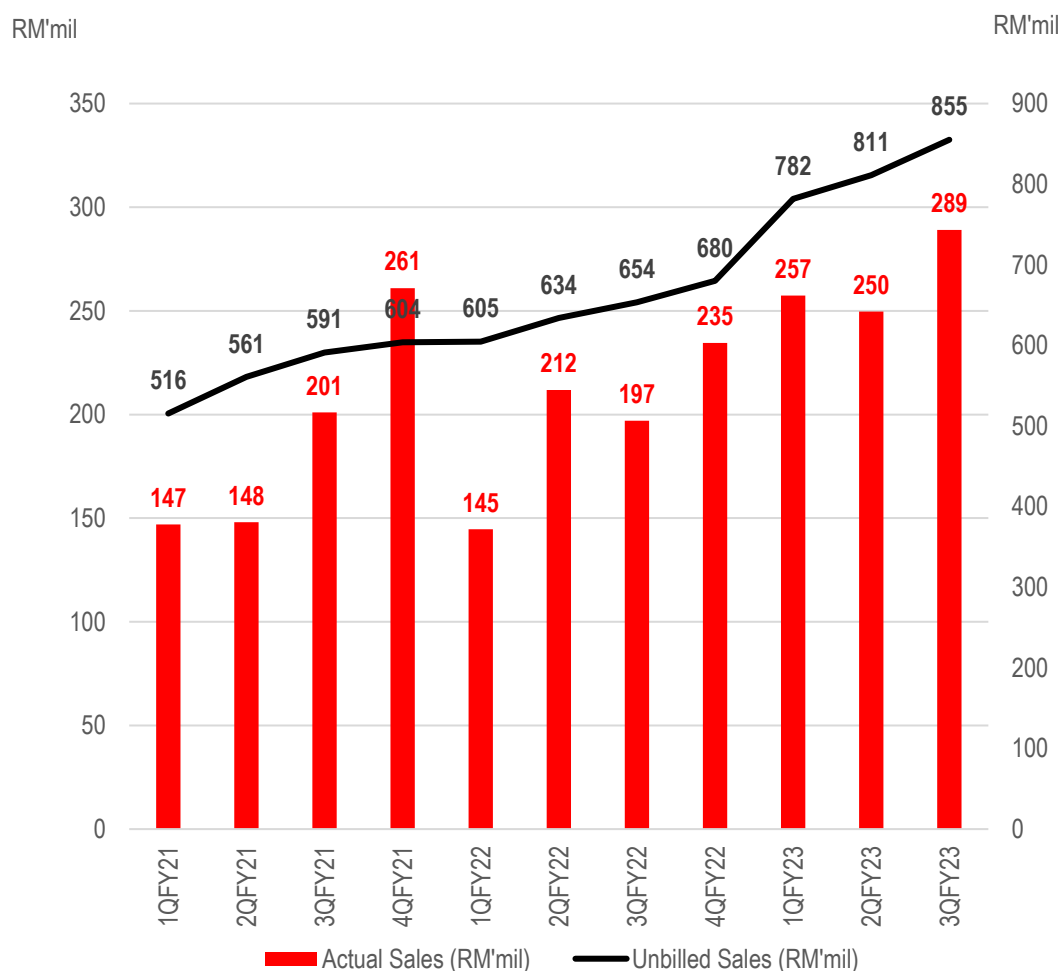
- The group has secured lower outstanding bookings of RM297mil (-15% QoQ) as at 30 September 2023 due to increased sales conversion and minimal launches in 3QFY23. We believe that the bulk of its booking will be converted to sales because the major buyer group comprising public servants typically have a higher sales conversion ratio of 90%.
- In October 2023, Lagenda launched the first phase of its township in Mersing, Johor, featuring a total of 360 units of single-storey landed houses. Lagenda's Mersing township has received strong demand, with bookings >75% as at last week.
- As at end-September 2023, unbilled sales rose to RM855mil (+31% YoY, +5% QoQ), representing a cover ratio of 1x FY23F revenue (Exhibit 2). Driven by the fast turnaround of projects (2 to 2.5 years) and adoption of IBS in newer projects, we expect Lagenda's unbilled sales to be mostly recognised in FY23F and FY24F.
- We continue to like Lagenda due to the company's niche in underserved landed affordable housing developments in second-tier states with a large population of B40 and M40 income groups.
- The stock currently trades at a compelling FY24F PE of 5x vs. the industry average of 11x while dividend yields are attractive at 6%.

EXHIBIT 1: EARNINGS SUMMARY

| YE to Dec (RM mil) | 3QFY22 | 2QFY23 | 3QFY23 | QoQ % | YoY % | 9MFY22 | 9MFY23 | YTD % |
|----------------------------|---------|---------|---------|-------|-------|---------|---------|--------|
| Revenue | 180.7 | 196.4 | 217.9 | 11.0 | 20.6 | 632.0 | 595.2 | (5.8) |
| Operating costs | (124.6) | (143.9) | (154.2) | 7.2 | 23.8 | (436.1) | (421.2) | (3.4) |
| EBIT | 56.1 | 52.5 | 63.7 | 21.2 | 13.5 | 195.9 | 174.1 | (11.1) |
| Net interest | (4.1) | (5.4) | (5.8) | 8.1 | 42.2 | (10.5) | (16.0) | 51.3 |
| PBT | 52.0 | 47.1 | 57.9 | 22.7 | 11.2 | 185.4 | 158.1 | (14.7) |
| Tax | (16.4) | (14.1) | (19.3) | 36.8 | 17.6 | (52.4) | (47.2) | (9.9) |
| MI | 0.0 | 0.2 | 0.2 | 42.9 | >100 | 0.0 | 0.4 | >100 |
| PATMI | 35.7 | 33.2 | 38.8 | 16.8 | 8.7 | 133.0 | 111.3 | (16.3) |
| Exceptional (gains)/losses | (7.6) | (0.0) | 0.0 | - | n/m | (7.8) | (5.0) | (36.3) |
| Core PATMI | 28.0 | 33.2 | 38.8 | 16.9 | 38.3 | 125.2 | 106.3 | (15.0) |
| EPS (sen) | 3.3 | 4.0 | 4.6 | 16.9 | 38.7 | 15.0 | 12.7 | (15.1) |
| EBIT Margin (%) | 31.1 | 26.7 | 29.2 | 2.5 | (1.8) | 31.0 | 29.2 | (1.8) |
| Effective tax rate (%) | 31.6 | 29.9 | 33.4 | 3.4 | 1.8 | 28.3 | 29.9 | 1.6 |
| Core Net Profit Margin (%) | 15.5 | 16.9 | 17.8 | 0.9 | 2.3 | 19.8 | 17.9 | (1.9) |

Source: AmlInvestment Bank Bhd

EXHIBIT 2: ACTUAL SALES AND UNBILLED SALES



Source: AmlInvestment Bank Bhd

EXHIBIT 3: PROJECT TIMELINE

| Existing Township | Launch Date |
|--|-----------------------|
| Bandar Baru Setia Awan Perdana (BBSAP) | 2016 |
| Lagenda Teluk Intan | 2018 |
| Lagenda Tropika (Tapah) | 2022 |
| DarulamanLagenda, Sg. Petani | 2022 |
| Mersing, Johor | 2023 |
| Upcoming Township | Estimated Launch Date |
| Penor, Pahang | 2024 |
| Bernam Jaya, Selangor | 2024 |
| Kulai, Johor | 2025 |

Source: AmlInvestment Bank Bhd

EXHIBIT 4: RNAV CALCULATIONS

| Developments | Outstanding GDV | NPV @ 8% |
|--|-----------------|----------------|
| | RM (mil) | RM mil |
| BBSAP | 636.3 | 150.2 |
| Lagenda Teluk Intan | 2,072.4 | 489.1 |
| Lagenda Tapah -100% owned | 2,134.7 | 512.2 |
| Lagenda Sungai Petani (Kedah) | 592.9 | 70.0 |
| Lagenda Kuantan Township (Pahang) | 1,260.0 | 297.4 |
| Lagenda Mersing Township | 985.0 | 152.7 |
| Lagenda Bernam Jaya Township | 500.0 | 67.2 |
| Lagenda Kulai Township | 4,000.0 | 296.6 |
| Others | 458.8 | 104.7 |
| Total NPV | | 2,140.2 |
| Net Cash / (Debt) | | 159.5 |
| Other Assets | | 529.0 |
| Total | | 2,828.7 |
| No of shares | | 1,137.9 |
| RNAV/share (RM) | | 2.49 |
| Less 30% discount | | (0.75) |
| Fair Value (RM) | | 1.74 |
| (+) 3% premium for 4-star ESG rating | | 0.05 |
| Fair Value/share (RM) + ESG Premium | | 1.79 |

Source: AmlInvestment Bank Bhd

EXHIBIT 5: ESG RATING

| Overall | ★ | ★ | ★ | ★ | |
|---------------------------------|---|---|---|---|---|
| Zero-carbon initiatives | ★ | ★ | ★ | | |
| Work site safety | ★ | ★ | ★ | ★ | |
| Worker welfare | ★ | ★ | ★ | ★ | |
| Corporate social responsibility | ★ | ★ | ★ | | |
| Pollution control | ★ | ★ | ★ | | |
| Supply chain auditing | ★ | ★ | ★ | ★ | |
| Corruption-free pledge | ★ | ★ | ★ | | |
| Accessibility & transparency | ★ | ★ | ★ | ★ | ★ |

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank

EXHIBIT 6: FINANCIAL DATA

| Income Statement (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 835.5 | 868.1 | 849.7 | 1,089.7 | 1,253.2 |
| EBITDA | 293.5 | 269.4 | 261.9 | 346.7 | 406.9 |
| Depreciation/Amortisation | (2.4) | (3.3) | (3.5) | (4.0) | (4.5) |
| Operating income (EBIT) | 291.1 | 266.1 | 258.4 | 342.7 | 402.4 |
| Other income & associates | 34.8 | 26.5 | 23.5 | 25.8 | 27.9 |
| Net interest | (13.3) | (15.3) | (46.9) | (65.7) | (75.9) |
| Exceptional items | (17.2) | (7.0) | - | - | - |
| Pretax profit | 277.9 | 250.8 | 211.5 | 277.0 | 326.5 |
| Taxation | (77.4) | (73.1) | (60.5) | (80.2) | (94.4) |
| Minorities/pref dividends | - | - | - | - | - |
| Net profit | 183.2 | 170.7 | 151.0 | 196.8 | 232.1 |
| Core net profit | 183.2 | 170.7 | 151.0 | 196.8 | 232.1 |
| Balance Sheet (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Fixed assets | 12.3 | 17.2 | 19.9 | 68.4 | 69.4 |
| Intangible assets | 25.6 | 25.6 | 25.6 | 25.6 | 25.6 |
| Other long-term assets | 139.0 | 203.8 | 203.8 | 601.8 | 607.9 |
| Total non-current assets | 199.3 | 270.8 | 273.5 | 720.0 | 727.0 |
| Cash & equivalent | 191.5 | 383.6 | 473.3 | 512.6 | 516.4 |
| Stock | 462.1 | 488.8 | 450.7 | 522.0 | 659.0 |
| Trade debtors | 271.1 | 272.7 | 275.7 | 353.6 | 406.7 |
| Other current assets | 318.3 | 379.5 | 558.7 | 599.9 | 797.3 |
| Total current assets | 1,243.0 | 1,524.6 | 1,758.5 | 1,988.1 | 2,379.2 |
| Trade creditors | 182.0 | 178.8 | 198.7 | 274.7 | 343.4 |
| Short-term borrowings | 40.9 | 82.1 | 77.1 | 72.1 | 67.1 |
| Other current liabilities | 176.8 | 211.8 | 216.0 | 220.3 | 224.7 |
| Total current liabilities | 399.7 | 472.7 | 491.8 | 567.1 | 635.2 |
| Long-term borrowings | 159.1 | 300.9 | 295.9 | 610.9 | 605.9 |
| Other long-term liabilities | 3.8 | 6.2 | 6.3 | 6.4 | 6.6 |
| Total long-term liabilities | 162.9 | 307.1 | 302.2 | 617.3 | 612.5 |
| Shareholders' funds | 879.7 | 1,015.7 | 1,237.9 | 1,523.6 | 1,858.6 |
| Minority interests | - | - | - | - | - |
| BV/share (RM) | 1.10 | 1.21 | 1.48 | 1.82 | 2.22 |
| Cash Flow (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Pretax profit | 277.9 | 250.8 | 211.5 | 277.0 | 326.5 |
| Depreciation/Amortisation | 2.4 | 3.3 | 3.5 | 4.0 | 4.5 |
| Net change in working capital | (150.8) | (43.8) | 86.2 | (8.3) | (56.6) |
| Others | (94.5) | (94.3) | (113.4) | (151.8) | (176.2) |
| Cash flow from operations | 35.0 | 116.0 | 187.8 | 120.9 | 98.3 |
| Capital expenditure | - | - | - | - | - |
| Net investments & sale of fixed assets | 4.7 | 7.8 | (55.2) | (361.6) | - |
| Others | (44.8) | (45.8) | - | - | - |
| Cash flow from investing | (40.2) | (38.0) | (55.2) | (361.6) | - |
| Debt raised/(repaid) | (21.9) | 181.9 | (10.0) | 351.6 | (10.0) |
| Equity raised/(repaid) | 97.6 | 18.6 | - | - | - |
| Dividends paid | (53.4) | (63.9) | (56.7) | (71.6) | (84.5) |
| Others | 97.6 | 18.6 | - | - | - |
| Cash flow from financing | 42.0 | 103.7 | (66.7) | 280.0 | (94.5) |
| Net cash flow | 36.8 | 181.7 | 65.9 | 39.3 | 3.8 |
| Net cash/(debt) b/f | 188.9 | 225.8 | 407.4 | 473.3 | 512.6 |
| Net cash/(debt) c/f | 225.8 | 407.4 | 473.3 | 512.6 | 516.4 |
| Key Ratios (YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Revenue growth (%) | 20.0 | 3.9 | (2.1) | 28.2 | 15.0 |
| EBITDA growth (%) | 12.0 | (8.2) | (2.8) | 32.4 | 17.4 |
| Pretax margin (%) | 33.3 | 28.9 | 24.9 | 25.4 | 26.1 |
| Net profit margin (%) | 21.9 | 19.7 | 17.8 | 18.1 | 18.5 |
| Interest cover (x) | 21.9 | 17.4 | 5.5 | 5.2 | 5.3 |
| Effective tax rate (%) | 27.9 | 29.1 | 28.6 | 28.9 | 28.9 |
| Dividend payout (%) | 28.5 | 31.9 | 32.0 | 31.0 | 31.0 |
| Debtors turnover (days) | 104 | 114 | 118 | 105 | 111 |
| Stock turnover (days) | 180 | 200 | 202 | 163 | 172 |
| Creditors turnover (days) | 80 | 76 | 81 | 79 | 90 |

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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